

K-12 EDUCATION— PROPOSITION 98

Overview

From 1999-00 through 2003-04, over \$2.7 billion was added to the Proposition 98 funding level above what was required by the Constitution. It is clear that part of the structural budget problem the State now faces is due to this increase in education spending beyond what the State could afford without cutting other programs.

Recognizing the importance to the State of maintaining the level of support for our schools, the Administration chooses not to reduce funding for K-14 education. The formula for the Proposition 98 funding level would require an increase in K-14 funding of \$3 billion in 2004-05.

The Governor's Budget proposes that schools and community colleges receive a \$1 billion increase in property taxes allocated to schools, but that no State funding be added this year. This will allow normal K-12 funding adjustments for both growth in numbers of students and cost-of-living to be made. Additional program funding capacity of about \$700 million is available within the existing funding level due to the expiration of programs and adjusting for one-time costs incurred during 2003-04.

Rebasing Proposition 98—Proposition 98 allows a temporary rebasing of the required appropriations if a bill is enacted with a two-thirds vote of the Legislature. The Governor's Budget proposes that the level of Proposition 98 appropriations be rebased at a level approximately \$2 billion less than would otherwise be required for 2004-05.



Agreements to Restore Funding—This action will create an additional amount of \$2 billion of what is called a “maintenance factor” that is required to be restored to the Proposition 98 budget in future years. Based on current projections of future revenue growth and other economic factors, the additional maintenance factor could be restored to the guarantee over the following three years, with substantial growth averaging about \$750 million per year as the economy expands. Thus we project that this rebasing of the guarantee will impact school funding for only four years. These funding additions will be in addition to the normal guarantee adjustments for student enrollment and per capita personal income. The Administration agrees to make general purpose funding a priority for 2004-05 and following years in the use of the maintenance factor funding.

Retiring Old Debts—Additionally, appropriations estimated to be required for prior years above the current level of the budgets for those years are proposed to be deferred and included in a settle-up agreement with the education community to be implemented in a series of statutory appropriations beginning in 2006-07. This agreement will retire the outstanding debts to the schools from 1995-96 and 1996-97 of \$250.8 million and the additional amounts estimated to be needed to meet the guarantee for 2002-03 and 2003-04 of \$517.9 million and \$444.9 million, respectively. Funds appropriated for settle-up will be designated for one-time expenses such as instructional materials, training, and deferred maintenance.

Proposition 98
(Dollars in Thousands)

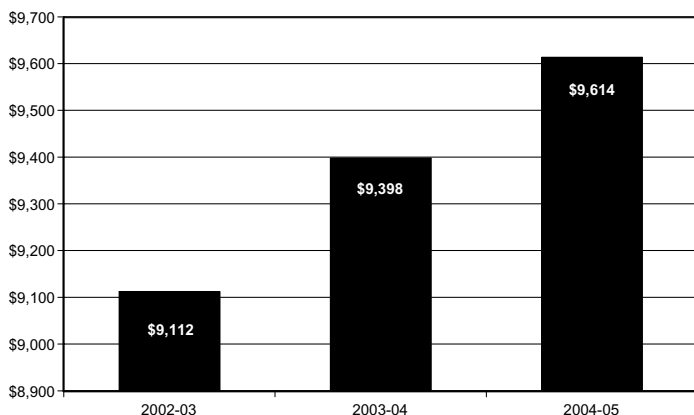
Appropriations	2002-03	2003-04	2004-05
K-12 Education	\$39,000,798	\$41,585,944	\$42,034,848
Community Colleges	4,623,085	4,358,857	4,678,804
Total	\$43,623,883	\$45,944,801	\$46,713,652
<i>State General Fund</i>	<i>28,842,957</i>	<i>30,166,130</i>	<i>29,739,800</i>
<i>Local Revenue</i>	<i>14,780,926</i>	<i>15,778,671</i>	<i>16,973,852</i>

Due to an increase in General Fund revenues, the 2002-03 and 2003-04 Proposition 98 minimum guarantees increased since enactment of the 2003 Budget Act creating settle-up obligations not reflected in the totals above.

- Total 2004-05 K-12 funding from all sources is now \$58.1 billion, a \$1.9 billion increase from 2003-04 and a \$4.2 billion increase over the 2002-03 level.
- Total 2004-05 per-pupil expenditures from all sources are \$9,614, up \$216 from 2003-04 and up \$502 from the 2002-03 level.
- Total Proposition 98 support for K-12 education will increase by over \$451 million in 2004-05, to \$41.9 billion.
- Proposition 98 per-pupil spending for the budget year will increase to \$6,945, which is \$5 over the 2003-04 level and \$357 over the 2002-03 level.



K-12 Education Spending Per Pupil



K-12 Spending Changes

K-12 Enrollment Growth—The Governor's Budget provides a \$406 million increase to fully fund statutory average daily attendance growth (\$280 million revenue limits, \$37 million special education, and \$89 million other categorical programs).

Public Employees Retirement System (PERS)—The Budget fully funds an estimated \$106 million increase in the PERS school employer contribution rate. Failure to fund this increase would effectively reduce existing budgets for school districts and county offices of education.

Unemployment Insurance (UI)—The Budget fully funds an estimated \$136 million increase in local education agency UI. This increase is attributable to a more than doubling of the UI rate, due to increased benefit amounts and longer eligibility periods, coupled with local staffing reductions.

Cost of Living Adjustment (COLA)—The Governor's Budget fully funds an estimated \$740 million 1.84 percent statutory COLA increase (\$555 million for revenue limits, \$70 million for Special Education, and \$115 million for various categorical programs).

Equalization—The Budget provides nearly \$110 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels. This equalization adjustment will apply to current revenue limits, as adjusted for excused absences, that are in place prior to the proposed shift of categorical funding.

Deferred Maintenance—The Budget includes \$250.3 million General Fund, an increase of \$173.3 million, for the State Deferred Maintenance Program to fully fund the statutory one-half of one percent State match.

Instructional Materials—While \$175 million in Instructional Materials funding is proposed for transfer to revenue limits in a categorical funding shift, the Budget provides an additional \$188 million to fund K-12 standards-aligned instructional materials adoptions for the core subject areas: Mathematics, English Language Arts, History-Social Science, and Sciences.

Internet2—The Budget provides funding of \$21 million to county offices of education to maintain high-speed Internet2 connectivity and network infrastructure.

Local Revenue—The Budget estimates growth in local property taxes of 8.5 percent. In addition, there were two significant adjustments to Educational Revenue Augmentation Fund distributions that affect school property taxes:

- A shift of approximately \$1.25 billion from K-12 schools and community colleges to local governments to compensate for the 0.25 percent reduction in the Bradley-Burns local sales tax that is used to pay for the State's deficit reductions bonds.
- A shift of \$1.34 billion from local governments to K-12 schools and community colleges. The Budget proposes this mechanism to continue the level of reduction in local government revenues due to the lag time involved in implementing the increased payments to local governments that offset vehicle license fee reductions in 2003-04.

K-12 Education Reforms

Categorical Funding Reforms—Shifting \$2 billion from 22 specified categorical programs to the general purpose apportionments of the districts and county offices currently receiving those



categorical funds will provide a significant increase in flexible funding. Local education agencies can continue to provide existing programs, or shift funds to local innovative programs and direct funding to the most critical needs. It is expected that priority will be given to meeting existing commitments and restoring school district budgets to balance. Districts are required to provide opportunities for community members, parents, teachers, and principals to participate in decision-making about these shifted funds. This funding change is conditioned upon increased accountability for academic and fiscal performance described below.

Charter Schools—The Governor's Budget shifts charter school categorical block grant funds to charter school general-purpose entitlements (\$21.9 million) and to the Economic Impact Aid program (\$14.5 million), with a distinct charter school allocation. To mirror the per-student funding for programs in the charter categorical block grant that are shifted to general purpose funding for districts, an increase of \$24.5 million in total funding is provided to charters in addition to the shifted funds.

School District Academic Accountability—The Administration proposes to fill a gap in the State's accountability system by creating a set of district academic performance targets for school districts. The State does not currently have a district level accountability system, and although the federal No Child Left Behind Act includes such a system, it does not differentiate well between failing and improving districts and does not focus on the lowest-performing districts. The accountability system proposed by the Administration would allow the State to identify the lowest performing districts so that interventions may be applied to improve performance.

Child Care Reform—According to a report released by the State and Consumer Services Agency in 2001, California has the most generous eligibility, subsidy, and co-payment policies of any other large state. However, despite California's fiscal situation, the Budget maintains approximately \$3 billion for child care programs administered by the State Department of Education (SDE) and Department of Social Services (DSS). This reflects the Administration's view that children are a priority investment and that families should be supported in their work participation and personal responsibility efforts.

In addition to caseload changes, statutory growth and cost-of-living adjustments, and the backfill of one-time funds used in prior fiscal years, funding for child care programs reflects an estimated \$164.8 million in savings from reforms. These reforms will ensure access for the neediest families, establish a more equitable and cost-effective system through reasonable fees and provider reimbursement limits, assist low-income families in achieving independence from subsidies, and ensure that children continue to be protected. Specific reforms include the following:

- Lowering the income threshold at which families are asked to share in the cost of child care, with gradual fee increases as family incomes rise, with a cap of 10 percent of income consistent with federal guidelines.
- Having providers directly responsible for collecting fees from subsidized families, as they currently do for their private-pay clients.
- Limiting subsidies for older children who have access to before and after-school programs.
- Reforming market-based reimbursement rate limits to provide financial incentives for higher quality care, including obtaining licenses, integrating early childhood development education principles, receiving health and safety training, and becoming accredited.
- Reforming income eligibility by implementing a tiered income eligibility structure that recognizes differential costs of housing in appropriate counties.
- Ensuring that CalWORKs families who are not able to obtain a slot in the general child care system can continue to receive child care subsidies while they remain on cash aid, and for three years thereafter.
- Authorizing CalWORKs families to enter waiting lists for non-time limited general child care programs as soon as they begin earning income.
- Standardizing the length of time a family can access subsidies while pursuing education and training.



- Reforming the referral duration period and fee policy for referrals of “at risk” children.

Child Care Fraud and Compliance—Information from counties that actively investigate child care fraud indicates that the range of fraud may range from 30 percent to 40 percent in alternative payment programs that administer monthly payments to providers selected by families participating in voucher programs. Even a 10 percent rate of fraud may cost the State well over \$100 million annually. These funds could be redirected to provide child care services to truly needy families, or to reduce program costs.

The Budget proposes a \$2 million augmentation from one-time federal funds for administrative start-up costs for a comprehensive anti-fraud proposal that is under development by the Administration. The Administration intends to work with the SDE to develop a legislative proposal by the May Revision, at which time this estimate of implementation costs may be refined.

School District Fiscal Accountability—The number of local education agencies (LEAs) in fiscal distress has grown in recent years, as evidenced by an increase in districts with qualified and negative interim financial reports and by the necessity of providing bailout loans to three districts since 2001. In some of these instances, opportunities to correct problems early were not taken advantage of and there was confusion surrounding local and State responsibilities for fiscally troubled districts. The Administration is concerned that cost pressures and local budget decisions may lead to continuing trouble at the local level.

Given the fiscal problems many districts face, the Administration believes that current laws and procedures regarding school district budget oversight require reform. In order to improve the process and ensure greater fiscal stability among LEAs, the Administration specifically proposes the following:

- Provide greater specificity for definitions of fiscal insolvency and establish clear guidelines for budget projections.
- Provide clear authority for the Superintendent of Public Instruction to assign school budget experts to districts in fiscal distress.

- Modify the process regarding emergency loans and State takeovers for troubled LEAs in order to incorporate lessons learned from prior experiences.
- Require all district collective bargaining agreements to be subject to a 15-day review and comment on budget impact by the County Superintendent of Schools.
- Require districts to present a plan to the public to fully restore their reserve for economic uncertainty by the 2005-06 fiscal year, as required by statute.

Program Highlights

K-3 Class Size Reduction—The Budget proposes \$1.652 billion for this program in 2004-05. Although the program received a cost-of-living adjustment, a funding level based on current program participation rates results in a \$7 million reduction from the 2003-04 funding level. The Budget also proposes \$6.7 million in one-time funds for a 2001-02 shortfall in the program.

Special Education—The Governor's Budget fully funds the special education formula, including increases of \$70 million for a 1.84 percent COLA and \$37.4 million for growth. These adjustments are funded by an increase of \$74.5 million in federal funds, an increase of \$23.6 million in local property taxes, and \$9.3 million from the General Fund.

Pupil Testing—The Budget provides \$105.6 million, including federal funds, for various statewide exams. These assessments provide valuable information to parents, teachers, schools, and the State regarding pupil performance, and are the foundation of the State's accountability system for both State and federal purposes.

- **Standardized Testing and Reporting (STAR) Exam**— This exam, which serves as the primary indicator for the state's Academic Performance Index and the federal measure of Adequate Yearly Progress, measures pupil performance on various State-adopted content standards, coupled with a nationally normed exam in grades 3 and 8. The Budget includes \$65.5 million for this exam.



- **High School Exit Exam (HSEE)**— This exam helps to ensure that pupils who graduate from public high schools can demonstrate grade level competency in English-language arts and mathematics. Commencing with the Class of 2006, all pupils must pass the HSEE in order to receive a diploma. The Budget includes \$21.2 million for this exam.
- **California English Language Development Test (CELDT)**— This exam is required to be administered to pupils whose primary language is not English within 30 days of enrollment and annually thereafter to pupils identified as English language learners. This assessment allows schools to measure improvement in each student's English proficiency. The Budget includes \$18.8 million for this exam.

Accountability—The State has committed significant resources to improve the academic performance of low-performing schools. The need to continue this focus has not diminished. Therefore, the Budget continues to fund the following programs:

- **Immediate Intervention/Underperforming Schools Program (II/USP)**—The Budget provides \$77.4 million, including federal funds, for the third year of implementation funding for schools that made significant progress but did not reach their growth targets, as well as schools in the Comprehensive School Reform Program. Additionally, the Budget includes \$32.7 million, including federal funds, for sanctions for those schools that failed to make significant progress during the two years they were provided with implementation funding.
- **High Priority Schools Grant Program**—The Budget includes \$208.6 million, including federal funds, for the third year of funding for this voluntary program, which provides up to \$400 per pupil to participating low-performing schools to improve academic performance.

Proposition 47 School Bonds—In November 2002, voters approved Proposition 47, which provided \$11.4 billion in general obligation bond funds for K-12 school construction through the State School Facilities Program and \$1.65 billion for higher education facilities. As of December 10, 2003, the State Allocation Board has apportioned a total of \$9.7 billion to K-12 schools, with

a remaining balance of \$1.7 billion to be allocated in the near future.

New School Facilities General Obligation Bond—

Proposition 55, a school facilities general obligation bond measure, is scheduled to appear on the March 2004 primary election ballot. If approved by the voters, the measure will provide \$10 billion for K-12 education facilities through the State School Facilities Program and \$2.3 billion for higher education facilities. The K-12 funding includes \$5.26 billion for new construction projects, \$2.25 billion for modernization projects, \$2.44 billion for critically overcrowded schools, and \$50 million for joint use projects. Within the proposed amounts, Proposition 55 provides a set-aside of \$300 million for charter school facilities.

